

AMENDED IN SENATE MAY 4, 2005  
AMENDED IN SENATE APRIL 25, 2005  
AMENDED IN SENATE APRIL 11, 2005

**SENATE BILL**

**No. 708**

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**Introduced by Senator Speier**

February 22, 2005

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An act to add Part 5.7 (commencing with Section 17800) to Division 9 of the Welfare and Institutions Code, relating to health care.

LEGISLATIVE COUNSEL'S DIGEST

SB 708, as amended, Speier. Drug discount program: conditions of participation.

Existing law establishes the federal Medicaid program, administered by each state, California's version of which is the Medi-Cal program. The Medi-Cal program, which is administered by the State Department of Health Services, provides qualified low-income persons with health care services.

Existing federal law requires the United States Secretary of Health and Human Services to enter into an agreement with each manufacturer of covered drugs that are not subject to a rebate under an agreement between the state Medicaid program and the manufacturer under which the amount required to be paid to the manufacturer for covered drugs, with certain exceptions, purchased by a covered entity, as defined, does not exceed an amount equal to the average manufacturer price for the drug under the federal Medicaid program in the preceding calendar quarter, reduced by the rebate received pursuant to the Medicaid agreement.

This bill would require the State Department of Health Services to develop a standard contract for private nonprofit hospitals whereby a hospital that elects to participate in the drug discount program established under federal law ~~may shall~~ agree to provide charity care on a continuing basis, ~~and to annually report its cost savings to the department under the federal drug program. The bill would require a hospital entering into such an agreement to increase by an unspecified amount the percentage of its operating expenses that goes to charity care by the end of the 3rd year that the hospital is a party to the contract.~~

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

1 SECTION 1. Part 5.7 (commencing with Section 17800) is  
2 added to Division 9 of the Welfare and Institutions Code, to read:

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4 PART 5.7. HEALTH CARE FOR LOW-INCOME PERSONS  
5 NOT COVERED BY THE MEDICARE PROGRAM OR THE  
6 MEDI-CAL PROGRAM

7

8 17800. A not-for-profit hospital that elects to participate in  
9 the drug discount program established under Section 340B of the  
10 Public Health Service Act may enter into an agreement with the  
11 State Department of Health Services for that purpose, which shall  
12 be subject to this part.

13 17801. The State Department of Health Services shall  
14 develop a standard contract for use in an agreement entered into  
15 pursuant to Section 17800, which shall include, but not be  
16 limited to, the following terms:

17 (a) Initially upon contracting with the State Department of  
18 Health Services pursuant to Section 17800, the not-for-profit  
19 hospital shall agree to continue its historic commitment to the  
20 provision of charity care, as reported to the Office of Statewide  
21 Health Planning and Development.

22 ~~(b) A not-for-profit hospital that contracts with the State~~  
23 ~~Department of Health Services pursuant to Section 17800 and~~  
24 ~~that enrolls in the drug discount program established under~~  
25 ~~Section 340B of the federal Public Health Service Act (42 U.S.C.~~

1 ~~Sec. 256b) shall annually report to the department the amount~~  
2 ~~saved on spending for outpatient prescription medication as~~  
3 ~~compared to average Group Purchasing Organization prices.~~

4 ~~(e) At the commencement of the fourth year that the hospital is~~  
5 ~~a party to the contract with the State Department of Health~~  
6 ~~Services pursuant to Section 17800, the hospital shall increase~~  
7 ~~the percentage of its operating expenses that goes to charity care,~~  
8 ~~as reported to the Office of Statewide Health Planning and~~  
9 ~~Development, by \_\_\_\_\_ percent if the department determines that~~  
10 ~~the hospital has realized an average savings of at least 20 percent~~  
11 ~~on outpatient prescription drugs as compared to average Group~~  
12 ~~Purchasing Organization prices.~~

13 ~~(d)~~

14 ~~(b) The term of the contract shall continue until terminated by~~  
15 ~~either party upon not less than 60 days' prior written notice to the~~  
16 ~~other party.~~